The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

# M&A Deal-Making Drops

By Rachel Nielsen

March 25, 2012

The Russian mergers and acquisition market posted a drop last year against a global decline in M&A activity, while foreign purchases of Russian assets stayed almost the same.

Overall Russian M&A activity totaled $71.1 billion in 2011, global audit and consulting firm KPMG said in its annual report on the M&A market. Almost a third of that amount was transacted by just a handful of companies: social media investor Digital Sky Technologies, state gas monopoly Gazprom, Novolipetsk Steel and VTB Bank. The 21 deals made by those companies came to $23.1 billion.

Compared with $95.6 billion in total deal value the previous year, the 2011 total dropped 28 percent. Worldwide, the value of M&A activity decreased by about 6 percent.

By a different measure, however, Russia's drop-off is more in line with global figures. Peter Latos, a director of transactions and restructuring for KPMG in Russia, said the 2010 total was "exceptional" given a $20.7 billion acquisition by Russian telecoms giant VimpelCom. If that acquisition is omitted from 2010 figures, then the 2011 deal value decreases only 8 percent, he said in a telephone interview.

In addition, the overall number of deals increased 5 percent last year, he said.

Despite Internet investments by Digital Sky Technologies, the natural resource and energy sectors "dominated" the Russian market for M&A in 2011, KPMG said in its Thursday report. Even VTB's deals contributed to that dominance, with the state-owned bank buying a stake in iron ore producer Metalloinvest.

"You only need to look at the industrial landscape of Russia," Latos said, referring to its world-leading production levels of minerals, oil and gas. About 45 percent of the M&A transactions were related to natural resources and energy in each of the last two years.

In 2012, smaller M&A transactions between Russian companies will continue to be the most typical type of deal, Latos predicted, with consolidation in sectors such as retail and telecoms at the mid market level, or deals of less than $250 million.

Companies also might be "following their value chains," or investing in uses of their products, Latos said. For example, an oil corporation could buy gas station assets overseas to wring more value out of its commodity.

While both President Dmitry Medvedev and Prime Minister Vladimir Putin have been courting foreign investment into Russia as part of their modernization push, "inbound investment," or the purchase of Russian assets by foreign companies, won't go up significantly this year, Latos predicted. Inbound investment scooted from 18 percent of all transactions in 2010 to 20 percent last year.

This year, investors "are waiting to see" how the debt crisis in the European Union is resolved and what "the priorities of the new government" in Russia will be, Latos said.

M&A patterns will be the mirror opposite of last year's, the KPMG director said, with "a slow start to the year with activity picking up in the back end."

Original url: https://www.themoscowtimes.com/2012/03/25/ma-deal-making-drops-a13515